



EUROPEAN UNION
Delegation of the European Commission in Papua New Guinea

Head of Delegation

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DEV/A/1

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With Heelbrunn *AH* *OK*

Port Moresby, 1st May 2002
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NOTE FOR THE ATTENTION OF MR LUTZ SALLZMAN
HEAD OF UNIT, DEV/A/1

Subject: Country Strategy Paper for Papua New Guinea

I have great pleasure in sending you the original signed Country Strategy Paper for PNG. The document was signed in a brief ceremony with our NAO who is the Prime Minister, Sir Mekere Morauta, on Friday 26th April. You will note that Sir Mekere signed and initialled the first two pages of the document. The remainder had been initialled by the Head of Aid Management Division, Mr Mosi Kwayaila, one of his senior officers.

I should be grateful if you could inform me the current status of the ratification process for the of Cotonou Agreement as we have a number of queries on this issue.

A copy of the signed Country Strategy Paper is also being sent to DEV/C/4.

Anthony Crasner

Copy: Mr G Gwyer, DEV/C/4
Mr A Oyowe, DEV/C/4

GENERAL PROVISIONS

The Government of Papua New Guinea and the European Commission hereby agree as follows:

- (1) The Government of Papua New Guinea, represented by the Hon Prime Minister, Sir Mekere Morauta, and the European Commission, represented by the Head of the European Commission's Delegation in Papua New Guinea, Mr Anthony Crasner, hereinafter referred to as the Parties, held discussions in Port Moresby on 26th April, 2002 with a view to determining the general orientations for co-operation for the period 2002 - 2007.
- (2) During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Papua New Guinea were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Papua New Guinea.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to Papua New Guinea for the period 2002-2007, an amount of € 81 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of € 85 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV of the ACP-EC Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Chapter VI concerns the resources of the A-allocation. It also takes into consideration financing from which Papua New Guinea benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. With the exception of the amount of €50 mn which is destined to finance the development programme identified following a request for aid under the Sysmin programme of the Lomé Convention but for which no financing decision could be taken before 31 December 2000, the B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme. For the time being, only the programme to be financed under the Sysmin-allocation is included in the Work Programme.

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- (5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership Agreement and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Papua New Guinea, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund
- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see Chapter 6 for further details).
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

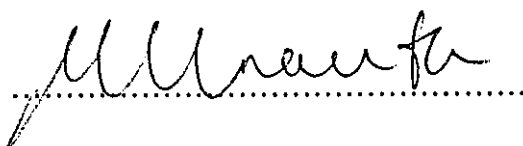
The mid-term review shall be undertaken within two years and the end-of-term review shall be undertaken within four years from the date of signature of the Country Support Strategy and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

SIGNATURES

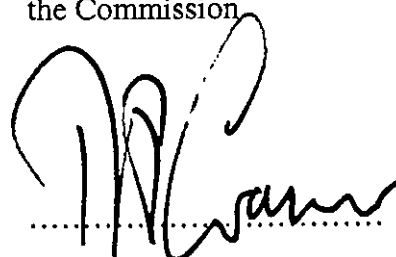
for:

the Government of Papua New Guinea



for:

the Commission



Date: 26th April, 2002

Papua New Guinea – European Community
Country Strategy Paper
and National Indicative Programme
for the period 2002 - 2007

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EXECUTIVE SUMMARY

The purpose of this Country Strategy paper is to provide a framework for EC co-operation within Papua New Guinea under the Cotonou Agreement. The framework is based on EU/ACP co-operation objectives (notably reduction of poverty and integration of the developing countries in the world economy) Papua New Guinea's own development policy, an analysis of the political and economic situation in the country, and an assessment of the past co-operation programmes of the EC and other donors.

Papua New Guinea is the largest of the ACP states in the Pacific and, with a population of 5.1 mn, is politically and economically the most significant. As a parliamentary democracy, PNG has a free media and an independent judiciary. However, the country is physically, socially, and economically fragmented. Moreover, its large resource potential, which should provide a basis for sustained economic growth, is not being adequately managed or exploited in an environmentally sustainable manner, there are major problems of law and order, and low standards of governance. Papua New Guinea's social indicators are among the lowest in the Pacific, malnutrition rates are high and nearly half of the population is illiterate. About one-third of the population live below the international poverty line. The central government is isolated from the rural areas where 85% of the population live, which renders it ineffective in the delivery of basic services

In recent years, Papua New Guinea has faced severe economic difficulties and economic growth has slowed, partly as a result of weak governance and civil war, and partly as a result of external factors. In 1989, the Panguna mine in Bougainville (at that time the most important foreign exchange earner and contributor to Government finances) was closed. The ensuing civil war cost 15,000 lives. The Asian financial crisis, a decline in prices of gold and copper, and a fall in production of oil have aggravated the country's economic difficulties and further compromised the realisation of PNG's development objectives set out in the Medium-Term Development Strategy (MTDS) covering the period 1997-2002. The MTDS specifies PNG's development priorities as being, among other things, elementary and primary education, primary health care, the promotion of income earning opportunities for rural entrepreneurs, and the resolution of the Bougainville conflict.

An evaluation of the EC Country strategy for PNG completed in 2000 noted that the EC has a long standing involvement in the education sector, and that this focus is highly relevant to poverty alleviation. The evaluation further concluded that, with poverty concentrated in rural areas, improving rural water supplies can be expected to have a sustained impact on poverty.

Taking into account PNG's development goals and the overall objectives of the new partnership, the lessons of experience from previous EC interventions, and following consultation with beneficiaries and stakeholders, the EC response strategy is to foster good governance, strengthen education, and improve the quality of rural life where the majority of the poor subsist. Accordingly, two focal sectors emerge: Education, Training, and Human Resources Development, and a Rural Communities Water Supply and Sanitation Programme. There will also be support to Institutional Capacity-building and Governance. The total amount available under the 9th EDF is € 116 mn (€ 81 mn in Envelope A and € 35 mn in Envelope B).

1. EC-CO-OPERATION OBJECTIVES

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and Papua New Guinea shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned - and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

2. PAPUA NEW GUINEA'S NATIONAL POLICY AGENDA

A Medium Term Development Strategy (MTDS) covering the period 1997-2002 was published by the Government in December 1996. In accordance with the National Goals and Directive Principles set out in PNG's Constitution, the MTDS specifies the development priorities of Papua New Guinea as being elementary and primary education; primary health care; transport infrastructure maintenance; law and order; the

promotion of income earning opportunities for local entrepreneurs (largely small-holder farmers), particularly in rural areas; and the peaceful resolution of the Bougainville conflict.

In the shorter term, reform of the public sector is a high priority for the current Government, and a condition of World Bank and IMF structural adjustment loans, to which the EC is also giving support.

In 1990/91, the Government launched an *Education Sector Review*, aiming at developing strategies to rectify problems which had become endemic in the education system since Independence. Further guidelines were provided subsequently, through the Organic Law in 1995, and National Education Plans (1995-2004) in 1996, (updated in 1999), the National Literacy Policy in 2000, and an Assessment 2000 Country Report. Priorities have also been put forward by the National Training Council.

The development of a government strategy for the *rural sector* has not been as systematic nor as comprehensive. However, a *White Paper on Agriculture* was published outlining a sectoral policy for the period 1996-2000, revised by *Strategic development objectives* for the period 1997-2001.

The Organic Law on Provincial Governments and Local-level Governments came into effect in 1995, designed to decentralise responsibilities from the central to the local levels; to relocate public servants from the main urban centres to bring them nearer to their rural communities and to improve the delivery of services in the rural areas. In 1999, grants to fund selected provincial projects were increased and a new rural development programme (RDP) introduced. In early 2000, new guidelines for spending under the RDP were developed with the assistance of the World Bank.

Thus PNG's national development strategy responds to the relative isolation of the central government from the rural populations in other provinces due to communications difficulties that are a feature of PNG's terrain, but are also a reflection of PNG's cultural and linguistic heterogeneity.

3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1. Political Situation

PNG became independent on 16 September 1975. Following the Australian model, the country is a parliamentary democracy with a single legislative chamber, the National Parliament, which is elected by universal adult suffrage. There are 20 members representing the 19 provinces, plus the National Capital District, and 89 members from electoral constituencies. National elections are held every 5 years. The National Executive Council, presided over by the Prime Minister, has executive powers. The Head of State, on the proposal of Parliament, appoints the Prime Minister.

The system has evolved into a number of relatively small political parties and a substantial number of independent Members of Parliament, which has led to an unstable political environment. Since Independence, no government has survived for its full 5-year term. National elections in PNG are scheduled for June 2002.

PNG follows democratic principles with checks and balances in place. These include freedom of expression in the press, independent courts, and an Ombudsman's

Commission specialising in corruption investigations. Non-state actors are active in the development process especially landowner groups, the Council of Women, and the Churches.

While PNG faces many difficulties - in particular extensive poverty and environmental damage - questions of governance are crucial. PNG has extensive political freedom, with an independent press, but the democratic accountability of politicians is limited. PNG's electoral and party system reinforce the clientelism that is inherent in the *wantok* (common language) kinship system, which tends to fragment the country.

Bougainville

The political integrity and economic structure of Papua New Guinea have been badly shaken by the Bougainville civil war which started after the closure of the Panguna copper mine in 1989. Some 15,000 lives were lost. The war ended informally in 1998 when a cease fire was brokered by New Zealand. A Peace Monitoring Force drawn from the region (including Australia) has been present subsequently. Preliminary agreement has been reached on weapons disposal, elections, and a greater degree of provincial autonomy for Bougainville, as well as proposals for a referendum on independence for the province in 10-15 years. These agreements still have to be endorsed by the National Parliament.

The Aftermath

For the people of Bougainville, the closure of the mine and the civil war brought economic life to a standstill. Not only were there problems of environmental damage, but agriculture was devastated. An economic rehabilitation programme co-ordinated by UNDP (to which the EC is a significant contributor) is under implementation.

At national level, PNG struggled under the Government of Bill Skate to recover from a deep and serious crisis of governance, exacerbated by weak political leadership and economic mismanagement, which further damaged investor confidence.

On 14th July 1999, the Government of Sir Mekere Morauta took office, following a parliamentary vote of no-confidence in Bill Skate. The new Government demonstrated a commitment to economic reform and took steps to improve governance, while removing a basic cause of political instability by a change in parliamentary procedure. The Act on the Integrity of Political Parties makes it more difficult for MPs to change parties. Four particular issues preoccupied the new Government: Turning away from co-operation with Taiwan; Re-establishing relations with Australia; Strengthening ties within the Pacific region; and Re-building the confidence of the donor community, especially the Bretton Woods institutions.

In recent months, a new problem has arisen on the country's western border with Indonesia, where secessionist activity in Irian Jaya (also known as West Papua) has led to an influx of refugees into PNG. The territorial integrity of Indonesia continues to be recognised by PNG. Nonetheless, there is a risk of instability and political conflict.

3.2. Economic Situation

Basic economic data are summarised in the following box:

Population	5.1 mn (2000)
GDP	\$ 3.8 bn (1998), \$ 3.6 bn (1999), \$ 3.9 bn (2000)
GDP per capita	\$ 765 (2000)
GDP growth rate	-3.8% (1998), 3.3% (1999), 0.7% (2000), -2.0% (2001)
Inflation	12.5% (2000)
GoPNG revenue	Kina 2,583 mn (1999)
GoPNG expenditure	Kina 2,801 mn (1999)
Exports (fob)	2.0 bn (2000)
Imports (cif):	1.5 bn (2000)
Total external debt	\$ 1.6 bn (end 1999)
Debt service ratio	8.6% (1988), 9.6% (1999), 15.0% (2000)
Net reserves	\$ 181.4 mn (1999)
Exchange rates	\$ 1.00 = Kina 2.78 (2000); € 1.00 = Kina 2.94 (August 2001)

Sources: IMF, EIU (US dollars)

Geography and Economic Environment

Papua New Guinea covers a land area about the size of France. It comprises the eastern half of the island of New Guinea (thus bordering Indonesia's eastern most province of Irian Jaya) together with 600 islands, of which New Britain, New Ireland and Bougainville are the largest. The mainland, accounts for more than 80% of the country's total land area and is dominated by rugged mountains, deep valleys, large river systems, dense forests, and extensive coastal swamps.

PNG is rich in natural resources. These include extensive tropical forests and maritime fisheries, very significant deposits of gold and copper, substantial reserves of oil and natural gas, and large areas of arable land which (subject to land tenure constraints) are in principle available for agricultural production. The forest and mining industries are central to PNG's economy, mining and petroleum account for about a quarter of GDP, while forestry supplies nearly one-fifth of export earnings. However, these fast-growth sectors tend to form economic enclaves with relatively little impact on the rest of the economy.

Minerals and Oil/Gas

Mining has been the main driver of the economy, accounting for up to four-fifths of export earnings. The closure of the Panguna copper mine in Bougainville in 1989 illustrates the fragility of dependence on this sector. Landowners sabotaged key installations in protest against environmental damage and inadequate compensation by the Australian-owned mining company. Another important mine, Ok Tedi, has also caused environmental damage, but continues in production, although its economic life may not exceed a further ten years.

The Panguna shutdown had severe ripple effects on PNG's economy, as at the time it accounted for nearly 10% of GDP, 36% of export earnings and 18% of government revenue. Other mines at Porgera, Lihir, Mount Kare, and Misima continue in production. PNG is still a major producer of gold (\$606 mn), a significant producer of copper (\$225 mn), and oil (\$542 mn)¹. Known recoverable oil reserves stand at 340 million barrels and will soon be exhausted.

¹ Figures refer to export values in 1999 in US dollars (source: PNG: Recent Economic Developments, IMF, October 2000).

Natural gas reserves of 2,660 million barrels of oil equivalent have been discovered but commercial exploitation of these resources has not yet commenced. A gas pipeline project linking PNG with Queensland in Australia is planned with development costs estimated at €4 billion. This project could be a major boost to PNG's economy and a catalyst for a petro-chemical industry. EIB has given conditional support to the gas pipeline, but the project faces competition from East Timor gas.

Agriculture

More than 85 per cent of the population rely on farming for their livelihood. Agriculture provides for about 30 per cent of GDP and about 14 per cent of exports. Food crop production for subsistence occurs within the traditional village structure, and has kept pace with population growth. Smallholders and larger estates produce cash crops, including coffee (\$164 mn), palm oil (\$133 mn), copra and coconut oil (\$64 mn), and tea (\$8 mn) primarily for export. Production is relatively high cost, due to poor infrastructure, marketing problems, and the relatively high cost of plantation labour.

Forests

PNG's largest renewable primary resource is its forests which cover three quarters of the land area. Logs account for some 3 per cent by value of total domestic exports. Export taxes are levied on unprocessed logs at rates of up to 70 per cent.

Nearly all forest lands are communally held by small groups of indigenous people or resource owners. Only a very limited forest area in the country is under protection or has conservation status. The unsustainable rate at which industrial logging has been taken place in recent years has been a cause of concern. Foreign logging companies do not follow recommended harvesting practices and damage the environment (with negative impact on genetic resources and ecosystems), with little or no benefits to resource owners.

Attempts to regularise the situation have been made. A new Forest Policy and a Forest Act were adopted in the early 1990s. A National Forest Authority and a National Forest Board have been created to regulate the industry. The EC-funded Log Export Monitoring Project provided support to the PNG Government in order to monitor log exports and ensure improved collection of export revenues. A moratorium on the issuing of new logging licences is currently in effect under the structural adjustment and economic reform programme backed by the World Bank and IMF. The value of log exports in 1999 was \$100 mn compared with \$481 mn in 1994.

Fisheries

Papua New Guinea's marine fishery resource is one of the world's largest, but is under-exploited and contributes only 1% of GDP. PNG has about one fifth of the tuna stock of the entire Pacific fishery. The potential sustainable tuna harvest is estimated to be around 250,000 tonnes a year.

The establishment of a tuna cannery plant near Madang has created worthwhile employment. Licence fees from distant water fishing vessels provide income to the Government, but there is a need for greater surveillance of fishing vessels, and greater transparency in financial transactions relating to fishing licences.

Manufacturing

Manufacturing industry consists mainly of small-scale production eg furniture, principally for the local market.

3.3. Economic Performance and Reform

In the late 1990s, the economy was adversely affected by a series of external shocks, including the Asian financial crisis, a serious drought which affected mining as well as agriculture, a decline in export prices, and a reduction in external financial assistance. Total export earnings decreased in 1997 and 1998, and recovered only slightly in 1999 to reach 75% of the 1996 level (\$ 2.6 bn). The macroeconomic framework also deteriorated and corruption became more evident.

The budget deficit deteriorated from 2.8% of GDP in 1996 to 7.4% in 1998, resulting in public debt increasing from 48 % of GDP in 1990 to 67% in 1998. Foreign exchange reserves were seriously depleted, falling from 3.3 months of import cover at the end of 1997 to 0.8 months by mid-1999.

The new Government of Sir Mekere Morauta which came into office in July 1999 has shown an initial commitment to economic stability and has taken steps towards governance reform and sound fiscal management, with the introduction of an ambitious Structural Reform Programme. This includes the adjustments required to ensure sustained, broader-based economic growth, with a view to containing public demand while reallocating public expenditure towards development priorities.

The IMF approved a stand-by credit of € 122 mn while the World Bank approved a structural adjustment loan of €98 mn in June 2000, in order to support the reform programme and rebuild reserves. The two key elements of this reform programme are strengthening of economic management, and improving governance by promoting efficiency of the civil service and forestry management.

Civil disturbances in June 2001 in which concerns were expressed about land registration have led to some delays in the Government's programme of privatisation of the PNGBC, the national airline and utilities. The most recent estimates of economic growth are negative. The prospects for increased growth brought out by foreign investment remain uncertain as long as the Government's aspirations for good governance are marred by crime and theft, corruption, and policy instability.

Trade and Regional Integration

The present Government recognises that international trade and foreign direct investment are vital to economic growth. Until it came to office in 1999, trade policies were conducted largely on an ad hoc basis. The Government has adopted tariff reduction as the main policy instrument to promote private sector-led growth, enhance productivity and improve the competitiveness of PNG's exports. In July 1999, tariffs were cut across the board from an average rate of 22% to 9%. The tariff reform programme has made the trade regime more predictable and transparent. Internally, after a lengthy delay and intense political resistance, all provincial sales taxes and import duties were abolished and replaced with a single national VAT rate of 10%. Additionally a mining levy was introduced to capture windfall gains accruing to mining companies from the removal of the basic import tariff. Efforts are being directed at improving trade policy formulation and co-ordination among the departments most concerned.

With minor exceptions, PNG accords MFN treatment to all trading partners. As a *de facto* member of GATT from 1948, it became an original member of the WTO in June 1996. PNG also made a commitment to the General Agreement on Trade in Services (GATS) covering market access and national treatment on a wide range of services. PNG has access into Japan and United States under GSP and into Europe under the Cotonou Agreement. PNG joined APEC in 1994, and, as a member, it is committed to achieving free trade and investments in the region on goods and services by 2020.

Despite these arrangements, PNG's trade remains relatively concentrated, both in commodities and markets. Exports are mainly oil and minerals (copper and gold), which account for about 80%, as well as logs and traditional commodities, especially palm oil products and coffee. Almost three quarters of exports in 1997 went to Australia, Japan and the European Union. The EU accounted for 18% of total exports.

In 2000 PNG exported to the EU goods and services worth € 295mn (down from € 379 mn in 1999) and imported goods to the value of € 32 (roughly the same as 199 but down from €53mn in 1998). PNG's exports to the EU were mainly primary commodities (82%), coffee (29%), copper (15%) and coconut products (12%). EU imports from PNG have risen by nearly 70% between 1990 and 1999. EU exports to PNG in 1999 were only one third of those in 1990. Machinery accounted for 44% of these imports.

PNG's trade within the South Pacific region is overwhelmingly with Australia and New Zealand. Within the framework of the South Pacific Regional Trade and Economic Agreement (SPARTECA), the Forum Island Countries (FIC) enjoy free and unrestricted access of a number of their products to the Australian and New Zealand markets.

PNG's exports to the rest of the region remain marginal whether within the framework of the Melanesian Spearhead Group (MSG) or with Forum Island Countries. The MSG, founded by PNG, Solomon Islands, Vanuatu, Fiji and New Caledonia, has a Trade Agreement covering a range of duty-free commodities since 1993. To date, the MSG has had a negligible impact on expanding trade. Trade with the Pacific Forum Island Countries (FIC) is also marginal for PNG. Only 1% of its exports go to FIC countries.

Papua New Guinea nevertheless sees the strengthening of regional integration as a precondition for the expansion of trade and has been active in promoting the establishment of a free-trade area. The Pacific Island Countries Trade Agreement (PICTA) was formally approved and signed by the Pacific Leaders at their annual meeting in August 2001 in Nauru. The Agreement foresees the liberalisation of trade among the PACP countries on a phased basis until 2012 with the exception of certain sensitive products which will not be liberalised until 2016. Australia and New Zealand are not part of the new PICTA.

This arrangement provides Pacific ACP countries with an option in terms of the Cotonou Agreement which foresees the creation of ACP-EU Economic Partnership Agreements (EPAs) as the cornerstone of future ACP-EU trade co-operation (i.e. an opportunity to create a EU/Pacific ACP REPA). EPAs will progressively remove barriers to trade and enhance cooperation in all areas relevant to trade, with a view to fostering the smooth and gradual integration of the ACP States into the world economy. In a context of globalisation and liberalisation of imports, EPA as well as WTO negotiations can further enhance the transparency and credibility of PNG's trade and investment regime, thereby encouraging investment and bolstering reform.

Papua New Guinea's trade will be strengthened not only through the REPA arrangement but also through the Pacific Regional programme under the 9th EDF.

On the national level, particular attention will be paid to capacity building in areas of trade policy formulation and implementation.

3.4. Social System and social situation

In 2000, PNG's population was estimated at 5.1 mn, with an annual growth rate of 2.3% for the ten years 1990-2000. Only 15% of the total population reside in urban areas, but between 1966 and 1990, the urban population grew by 6.3% a year. Some 50,000 people enter the labour market each year. Of the total working population, only 14% have wage employment. The formal sector has a strong gender imbalance with men holding more than 80% of the jobs. Women are poorly represented at senior levels of both the public service and the private sector, in the professions, and in politics and the judiciary. Between 1982 and 1997, spanning three general elections, only two women have been elected to the national Parliament. Violent crime against women is extremely high.

In terms of income, PNG is a middle ranking country. But, on many social indicators, PNG ranks much lower than would be expected, given its relative affluence and level of Government expenditures. Income per capita is \$ 765. Life expectancy is the lowest in the Pacific. Only a little over half the adult population is literate. Infant and maternal mortality rates appear to be rising.

In the first ten years following independence, PNG's social indicators improved significantly. In the subsequent ten years, progress slowed and, especially in the area of health, even declined. Water borne diseases such as diarrhoea and malaria are prevalent. On the United Nations' Human Development Index for 1999, Papua New Guinea ranked 129 out of 174 countries.

Poverty

While PNG is classified as a lower-middle income country and is rich in natural resources, some 37 per cent of the population live below the poverty line, and social indicators are weak relative to other countries with a similar GNP per capita. This is explained by a marked inequality in income and in access to public services, which in turn results in relatively high rates of malnutrition, poor health standards, and illiteracy. There are large regional variations in the incidence of poverty. Those living in rural areas are much more likely to be poor than those living in urban areas. While the incidence of poverty is highest in the Momase/North Coast region, the largest proportion of poor households occur in the Highlands region. While two-thirds of adult men have attended school, this is the case for only half of adult women.

Health

Between 1980 and 1997, the infant mortality rate fell from 78 to 61, but other countries with similar levels of GNP per capita did better. Only 31 per cent of the population have access to safe water. According to the World Bank there has been a marked deterioration in the level and quality of healthcare facilities, especially outside major towns.

Education

Significant progress has in fact been made towards increasing access to education over the past 10 years, with an annual increase of 5 per cent in student enrolment. At primary level, attendance has risen from 72% to 82% for boys and from 60% to 76% for girls. Gender disparities remain a serious concern at secondary level, where only a third of

pupils are girls. There is considerable variability across regions in respect of the gender gap in enrolments, and rather high drop out rates overall at primary level.

3.5. Sustainability of current policies

The sustainability of Government's policies depends on public acceptance of the current process of economic reform, increased partnership with non-state actors, and successful conclusion of the Bougainville peace process.

The June 2001 riots in Port Moresby are symptomatic of the lack of awareness and appreciation by the public at large of the critical role that privatisation of national enterprises and land reform should play in fostering investment and economic growth. At the same time, the public's confidence in politicians and civil servants needs to be strengthened by sustained efforts to root out corruption and build a public service ethos. Part of this process is to ensure accountability and transparency in the exploitation of the country's forestry and fishery resources, and to limit the environmental damage done by mining companies. Another imperative is to address poverty, especially in rural areas.

Partnership with Non-State Actors

The Christian churches among non-state actors have been active in the delivery of health and education services, including water supplies. The National Council of Women have launched campaigns in the areas of awareness of domestic violence, family planning, income generating activities and the integration of women into the political and judicial systems. Other NGOs focus on environment and human rights issues. But civil society organisations face major problems of co-ordination, communication, and human resources. The partnership with State institutions is weak, and needs to be strengthened.

In Bougainville, the current peace process needs to be brought swiftly to a conclusion and re-inforced by programmes which rebuild economic and social life, thereby encouraging the population of the province to wish to remain part of PNG and maintaining the integrity of the country. Given the high status women enjoy in traditional Bougainvillean society which is largely matrilineal, women and women's groups will continue to play a crucial role towards reconciliation.

3.6. Medium term challenges

PNG faces many difficulties, in particular extensive poverty, environmental damage and the delivery of essential services such as water to the rural population. Questions of governance are central. A weak State, corruption, and insufficient political accountability, hinder economic development and protection of the environment.

The lack of adequate skills among the population is a major concern which is linked directly to deficiencies in the education system. Despite the substantial achievements of recent years, many children still have no access to basic education and of those who do participate, too many fail to complete their schooling.

Among the challenges is the maintenance of political stability while needed reforms are carried out. These include an overall reduction in the size of the public sector, while strengthening staffing at provincial and district levels in accordance with the provisions of the Organic Law. Privatisation of the PNG Banking Corporation, the national airline and utility companies has been agreed with the BWIs as part of the reform process.

Opportunities for patronage and corruption arise from the lack of transparency and accountability within the public sector. The Office of the Auditor General, the Ombudsman Commission, and the Parliamentary Public Accounts Committee all need to have their authority strengthened. Civil society organisations have played an important role in increasing the awareness of corruption.

Improvement in the investment climate will come with political stability and greater accountability within the civil service, but urban crime needs also to be tackled. The quality of life has been dramatically affected (as well as business confidence) by the growing law and order problem, particularly in urban areas, which has been aggravated by rural-urban drift and a high unemployment rate among young urban males. Women have been particularly affected. Enhancing the quality of life in rural areas will help to stem the flow of people to urban areas where jobs are limited and unemployment and crime rates are high.

Land Tenure and Reform

Ninety-seven per cent of land is communally owned in PNG. Access is usually guaranteed to members of the community under varying rights and obligations for subsistence farming and habitation. Although having a stabilising effect in preventing the emergence of extreme poverty, the land tenure system is a constraint to development in so far as it inhibits the emergence of a market in land, and is thereby a deterrent to foreign investment. Even when land is leased for developmental purposes, landowners' concerns may conflict with those of the investors. The World Bank programme for land registration has been a recent target for protests by students and others.

4. OVERVIEW OF PAST AND ONGOING COOPERATION

4.1. EC Co-operation

Summary of past and ongoing actions

The EC's development programme has grown considerably since 1978, from € 13 mn under Lomé I to € 180 mn under Lomé IV.

Both 7th EDF NIP (€ 46.2 mn) and 8th EDF NIP (€ 50.0 mn) focused on Human Resources Development and Improvement of the Rural Environment.

Over the past 10 years PNG has received very considerable support from the STABEX facility totalling some € 245 mn. Stabex funds have been used to assist economic operators in the tree crop sectors of coffee, cocoa and copra. Price support has been given to farmers as an interim measure while prices or productivity of the sector improve. Research and rehabilitation of processing and drying facilities for cocoa, copra and coffee, have led to quality improvements, while agricultural diversification aimed at increasing income-earning opportunities and broadening PNG's export base, have also been funded by Stabex. In Bougainville, the EC has taken a lead role with Stabex (€ 5 mn) in the post-conflict rehabilitation of smallholder cocoa plantations.

The closure of the Panguna mine in Bougainville meant that PNG became eligible for an allocation of €30 mn from SYSMIN. Because of the civil war in the province, these funds were used for the construction of roads and bridges elsewhere in PNG. A further €50 mn of SYSMIN funds is to be committed in 2001 in support of enhanced geological mapping of mineral resources and new approaches to environmental protection, with a view to encouraging renewed interest by foreign investors in mineral exploitation.

A number of interventions have been financed from various EC **budget lines**, notably for the first phase of the eco-forestry project (which has provided an innovative model of intervention in providing landowners with an alternative to environmentally unsustainable exploitation by large scale logging operations), and for the rehabilitation of classrooms and houses in Aitape, the area hit by a *tsumani* in 1998.

PNG has also benefited from two structural adjustment support programmes, one of €5.3 mn (7th EDF) for high school maintenance, the other one as a budget support to offset domestic debt, amounting to €10.4 mn (8th EDF).

PNG has also benefited from the Pacific **Regional Programme**, including support to the Medical Faculty of the University of Papua New Guinea, and actions under the Pacific Regional Agricultural Programme for selecting new varieties of sweet potatoes and for taro beetle control.

The European Investment Bank has made significant loans in support of PNG's development (€ 235 mn since Lomé I), notably in mining, hydro-electricity, oil palm, and road construction. CDE has provided technical support in fish processing and furniture manufacture.

Lessons learned from evaluations

An evaluation of the EC country strategy for PNG completed in 2000 noted that the EC has a long standing involvement in **education**, that this focus is highly relevant to poverty alleviation, and that a good working relationship had been established with Government in this sector. The First Human Resources Development Programme supported tertiary education, as well as the maintenance of primary and secondary schools. The study recommends that the EC should make a further shift towards primary education, so as to increase the likely impact on poverty, while actively participating in the education sector expenditure programmes alongside other donors.

The evaluation further concluded that with poverty concentrated in rural areas, the past focus on the rural environment is relevant to the poverty objective. The study noted that improving **rural water supplies** can be expected to have a quick - and potentially sustained - impact on poverty, especially as the lack of clean water in PNG has a host of negative consequences for health, infant mortality in particular.

Other recommendations were that:

- Governance should become a principal sector of concentration, in close coordination with other donors.
- Working with civil society directly may be appropriate when supporting organisations that play a governance watchdog role, and when civil society organisations are used as implementing agents for service delivery.
- The EC should design programmes specifically to strengthen institutions, without involving large TA programmes.
- Performance indicators to monitor impact should be defined during project preparation, formalised in log frames and monitored regularly during implementation. Civil society organisations could be instrumental in measuring outcome indicators.

A specific Evaluation of two **rural water supply** programmes under the 6th and 7th EDFs recommended, among other things, following the philosophy of decentralised co-operation and micro-project approach and allowing the active involvement of NGOs; widening approach to include further aspects of water supply such as health education

and sanitation; and using extensively participatory approach for project identification, implementation and management.

4.2. Programmes of other donors

PNG receives considerable donor support. Data from 1997 show that grants from bilateral and multilateral donors amounted to US\$ 78 per capita per annum, or just under 8% of GDP.

Australia, with an annual allocation of €170 mn of grant aid, accounts for two-thirds of PNG's net annual aid receipts, and one-sixth of total Government spending. Australian aid has been transformed over the 1990s from untied budget support to a programme of project activities, reflecting Australia's growing dissatisfaction with the lack of transparency and accountability in budgetary procedures. The programme touches upon most sectors in the economy, with particular emphasis on the sectors of health and governance.

The **Bretton Woods Institutions** play a leading role in PNG's on-going structural adjustment programme. The **World Bank** has provided 30 IBRD loans and 13 IDA development credits, amounting to € 690 mn and € 130 mn, respectively. This includes a second Structural Adjustment Loan which was approved in 1995, the second tranche of which was released in January 1997. A further € 100 mn Structural Adjustment Loan was approved in June 2000, of which € 40 mn has been disbursed. The Bank's portfolio in June 1999 amounted to € 117 mn. Disbursements in 1998 and 1999 averaged €25 mn per annum. Papua New Guinea is not among countries for which a Poverty Reduction Strategy is being prepared by the IMF and the WB

As of August 31, 2000, the **Asian Development Bank (AsDB)** had approved 50 loans totalling € 810 mn, for 41 projects. In addition, €35 mn has been provided for 107 technical assistance projects. Current plans envisage annual lending of about €65 mn during 2001-03. AsDB is developing a "Country Assistance Plan", on a 3-year rolling basis, the current plan covering the period 2001-2003. The main areas of intervention are agriculture and fisheries, urban water supply, transport, finance and micro-finance, Public Sector Reform and rural skills development.

Japan provided € 55 mn in 1998. Of this amount about half is in the form of loans. Grant aid has been focused on human development, public health and education, while loans are targeted at the sectors of energy, transportation and agriculture. Japan contributed €25 mn for structural adjustment support in 2000.

New Zealand Official Development Assistance (NZODA) of € 5 mn per year is focused on community-based development, with forty percent going to Bougainville, and scholarships.

The People's Republic of China and PNG have strengthened their relationship over the past two years, leading to a significant increase in co-operation. Since 1976, the total assistance provided by the Chinese Government to PNG amounts to €70 mn. This assistance has been spent on infrastructure and agricultural projects.

United Nations agencies have facilitated the peace process following the New Zealand led talks which first resolved the Bougainville conflict in 1998. € 6.2 mn was provided in 1999, of which € 2.7 mn was from UNDP, most of which is spent on human resource development. The other UN agencies working in PNG are WHO, UNFPA and UNICEF.

In comparison, the programmes of the EU Member States are relatively modest. The **United Kingdom**, spends between €80,000 and €100,000 every year in human rights, governance and community-based activities. **France** has a series of instruments for development co-operation consisting of both grants and loans, principally for training, while "Agence Française de Développement" (AFD) provides State-to-State loans, in the energy, transport and communications sectors. **Germany** had a programme, particularly in forestry and vocational training. This programme, funded mainly by grants, has been discontinued and is currently winding down.

5. THE EC RESPONSE STRATEGY

Taking into account PNG's development goals and the overall objectives of the new partnership, the lessons of experience from previous EC interventions, with particular reference to the recent Country strategy evaluation, and following an extensive process of consultation with a wide range of beneficiaries and stakeholders, the EC response strategy to PNG's requirements, which emerges from the analysis of the country's political, economic and social situation, is to foster good governance, strengthen education, and improve the quality of rural life where the majority of the poor subsist.

Two focal sectors are proposed:

- Education, Training, and Human Resources Development
- Rural Communities Water Supply and Sanitation

In addition, in recognition of a clear need to improve the quality of economic performance by improved decision making, and the perspective of transparent and accountable governance, an additional non-focal sector is proposed:

- Institutional Capacity-building and Governance.

Education, Training and Human Resources Development Programme

Effective human resources development is the necessary foundation for development in every economic sector as well as for building a true national identity for PNG. The primary focus will be on the quality and motivation of the teachers and trainers and on providing a range of educational and training opportunities for students with differing needs and profiles. The achievement of universal primary education by 2004 remains a target.

Rural Communities Water Supply and Sanitation Programme

Although PNG has an abundance of water resources, 70% of the rural population have no access to safe water, and sanitation is a major problem. Furthermore, women whose responsibility it is in PNG society to fetch water have to go long distances for it. Gender considerations, easy access and poverty alleviation are critical factors in the choice of this focal sector. Furthermore, the EC has considerable experience in this area.

Institutional Capacity-building and Governance Programme

PNG's economic development record over the past few years is evidence that governance issues underly many of the country's problems. Good governance, which may be defined as the transparent and accountable management of human, natural, economic and financial resources for the purposes of equitable and sustainable development, flows from proper public sector management, efficient fiscal and accounting mechanisms, and a willingness to make service delivery a priority in practice.

This implies two kinds of actions:

- Contributions to Improved Macro-economic Management

Actions linked to reinforcement of management and monitoring agencies (Ombudsman, Attorney General, Auditor General). Proper and equitable public resources allocation to the social sectors is a major concern, and will be evaluated through monitoring performance indicators. These activities will be closely coordinated with the Bretton Woods Institutions.

- Strengthening Civil Society

The evaluation study concluded that the participatory approach embodied in Cotonou is particularly appropriate in PNG where governance is poor and Government institutions are weak. Co-operation with civil society in PNG may be important both as a means of improving service delivery, (particularly in cases where Government departments cannot ensure the transparent and accountable delivery of pro-poor services) and also as a means of increasing the pressure for good governance. Voter education, in particular for women, will be provided in the context of more general support to elections in 2002.

Consistency with Government policy

This Response Strategy is fully in line with PNG's development priorities, emphasising human development, production activities, and strengthening of PNG's social, political, cultural and economic institutions. The strategy also integrates well with Government's policy as outlined in the Medium Term Development Strategy.

All four key objectives contained in the National Programme for Reconstruction and Development (good governance, improved planning and budgetary systems, efficient service delivery system, and income earning opportunities), are specifically addressed by this response strategy.

The Human Resources Development Programme will continue to develop the strategies and activities as proposed in the sectoral policy in Education.

The Rural Communities Water Supply and Sanitation programme will receive the full support of the Government, as it addresses the problem of delivery of services to the poorest and most vulnerable.

The Programme for Institutional Capacity-Building and Governance represents one of the main development challenges as indicated in government's major strategy statements, in particular in the *Medium Term Development Strategy*.

European Investment Bank (EIB)

Financing of projects by the European Investment Bank will be implemented under the Investment Facility (IF). This instrument is geared towards the promotion of the private sector, recognised as the principal engine of growth, as well as towards the development of economic infrastructures. The interventions of the EIB, which is managing the IF, could in PNG take the form of loans for the support of the small and medium-sized enterprises (SMEs) through the local financial intermediaries and/or for the development of projects in productive infrastructure and in the sectors of energy and mining.

Complementarity within the EU

The European Commission has important comparative advantages in the three proposed areas of action. The rural water supply programmes implemented under the previous EDF were highly appreciated by the beneficiaries. The new programme will strengthen the

involvement of the beneficiary communities, and where necessary bring in non-state actors for implementation.

The Member States active in PNG have gathered relevant experience in the field of training and community-based development with the participation of non-State actors. Those lessons learned will be of value in increasing the effectiveness and impact of new EDF interventions.

Capacity-building and institutional strengthening have also been well established with, for example, the reinforcement of the NAO's office. Macro-economic support has also been provided through Structural Adjustment Facilities, in particular for the education sector. In this respect, a sound collaboration with the Bretton Woods Institutions will be sought, in order to maximise the impact and effectiveness of the proposed actions in this field.

Policy Coherence

Coherence between development cooperation policy and other EC policies (trade, fisheries, agriculture, environment) relevant for PNG will be assessed on a continuing basis. In this context NIP resources may be used to complement resources from the RIP, budget lines and trade-specific operations, in support of PNG's efforts (Government departments and Non State Actors) to prepare for the establishment of a coherent trade policy framework, with emphasis on preparing for the EPA, and assistance for capacity-building for carrying out negotiations in a regional and multilateral context and in implementing the accompanying trade policy and structural reforms.

In its recent communication on conflict prevention (April 2001), the Commission has announced its intention to focus more clearly its co-operation programme on addressing root causes of conflict in an integrated way. Mindful of the consequences of the Bougainville conflict, the Commission will expand its support to conflict resolution measures by ensuring that Bougainville receives an appropriate share of the education, rural water supplies and good governance programmes.

In fisheries, the EC will ensure coherence between its commercial interests in harvesting tuna from the Pacific, and the developmental imperatives of equitable returns, promotion of onshore fish processing and coastal fisheries, transparency in providing accurate information on fishing effort and catch, and strict adherence to the principles of resource conservation and sustainability.

Coordination with other donors

Human Resources Development has received extensive support from donors. A donor contact group for the education sector has been established to promote better co-ordination. The EC will play a full role in this forum.

AusAID, AsDB and the World Bank all provide assistance in education, community development and in renewable resources management, including primary health care, water supply, smallholder support services, and forestry resources management.

The major contributor to capacity building in planning and governance is the World Bank, whose strategy papers are articulated around this theme. One of the prerequisites to macro-economic support is the existence of an economic programme agreed upon by the Bretton Woods Institutions.

The EC will coordinate its actions in liaison with the Government, the donors, and representatives of civil society.

Applying the lessons learned

The focal sectors are areas where the EC has built up a 'critical mass' and has a comparative advantage, particularly in rural communities water supply. The 7th and 8th EDFs concentrated on human resources development and rural environment and dealt with a wide range of activities. By contrast, activities under 9th EDF will, in accordance with lessons learned and the recommendations of the 1999 evaluation, be concentrated, "focus within the focal sector" and participation of civil society will be increased. In education, training and human resources development, emphasis will be mainly on elementary and primary education (and less on tertiary education as was the case in the past) and on vocational training with gender equality a major consideration.

On the rural sector, activities will be limited to water supply, but, in accordance with the recommendations of the evaluation of the water supply programmes of the 6th and 7th EDFs, widened to include other aspects, particularly sanitation and health education. The participatory approach in project identification, implementation and management will be adopted.

The non-focal sector will enable EC to make increased contributions to the improvement of governance and the strengthening of institutions, in co-ordination with other donors, notably Australia and the BWIs.

6. NATIONAL INDICATIVE PROGRAMME

6.1. Introduction

Within the framework of the present Country Support Strategy (Part A) and according to the provisions of Article 4 of Annex IV of the Cotonou Agreement, the Parties have agreed on the main priorities for their co-operation (see Chapter 5) and on the sectors on which Community support will be concentrated. A detailed Indicative Programme, including a set of tables on commitment and disbursement forecasts as well as a preliminary chronogramme of different activities is presented hereunder.

Amounts mentioned in this chapter indicate the global repartition of funds between the focal sectors, macro-economic support and other programmes. This repartition can be modified in the context of operational performance or ad hoc reviews.

6.2. Financial Instruments

The EC Country Support Strategy for Papua New Guinea will be financed through different instruments with following indicative allocations:

- (a) **9th EDF A-envelope** (€81 mn). This amount shall serve to cover long term development operations within the framework of the Support Strategy. It is to be divided as follows:
- Education, Training and Human Resources Development (€35 m)
 - Rural Communities Water Supply and Sanitation (€25m)
 - Institutional Capacity building and Governance (€21m, of which €6m is reserved for the strengthening of Non-State Actors).
- (b) **9th EDF B-envelope** (€85 mn). This envelope includes €50 mn of SYSMIN transfer under the 8th EDF for the funding of a programme under preparation. The remainder of this envelope (€35m) will be mobilised to provide additional support when this becomes necessary as a result of external factors.
- (c) Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the "**Investment Facility**" as a financing instrument managed by the European Investment Bank (see details in Part A, chapter 5). The Investment Facility does not form part of the Indicative Programme.

Specific actions could be financed via budget lines, especially in the areas of decentralised co-operation, NGO financing, human rights and democracy. These are subject to specific rules and regulations and depend on availability of funds.

6.3. The focal sectors

Education, Training and Human Resources Development (€35 mn)

The following specific objective shall be pursued: Increase the number of students (particularly girls and young people in rural areas) obtaining educational qualifications and marketable skills.

For indicative purposes, approximately € 35 mn shall be reserved for this sector.

The major interventions foreseen are:

- *Basic education through support to rural primary schooling;*
- *Integration of the education sector and the labour market through support to vocational education and training;*
- *Educational facilities maintenance;*
- *Effective and appropriate school inspection;*
- *Improvement in education delivery through provision of distance learning facilities;*
- *Teacher/trainer skills upgrading especially via in-service training.*

The major **policy measures** to be taken by the Government as a contribution to the implementation of the response strategy in this sector will be to maintain the share of the national budget for education, facilitate regular dialogue with the donor group on education, encourage community and non-state actors participation, and review career structures for primary school teachers and inspectors.

The **outcome indicators** which will be used to assess the impact of EC aid during reviews and evaluations will include gross enrolment rates, improved teachers houses and classrooms in remote areas, improved communications between district and provincial centres with remote schools, regularity of school inspections, new teacher registration, teacher numbers in relation to established posts.

Rural Communities Water Supply and Sanitation (€ 25 mn)

The following specific objective shall be pursued: support actions to facilitate access to safe water and adequate sanitation for rural communities in order to improve health, and reduce drudgery for women:

For indicative purposes, € 25 mn shall be reserved for this sector.

The major interventions foreseen are: pipe-borne water, rainwater tanks, and training in the delivery and management of water resources at village level, associated health/hygiene education, and the promotion of sanitation (pit latrines).

The **policy measures** to be taken by the Government as a contribution to the implementation of the response strategy in this sector are:

- To permit non-state actors to act as project carriers in situations where local Government services are inadequate;
- To promote training of district and village level workers in water management, systems operation and maintenance, and preventive health/hygiene measures;
- To monitor rural health indicators, with particular reference to child morbidity and mortality, and the incidence of water borne diseases;
- To prioritise villages for assistance with rural water supplies and sanitation on the basis of need, as measured by population and health status.

Outcome indicators which will enable an assessment to be made of the impact of EC aid during reviews and evaluations will be:

- The percentage of population receiving enhanced rural water supplies by type of scheme (piped water, wells, water tanks).
- The number of schemes remaining in satisfactory operation after a given time period.
- The number of villages where financial and other contributions are made by beneficiaries for scheme maintenance.
- The incidence of water borne disease before and after schemes are introduced with corresponding reduction in infant mortality and morbidity.

- The percentage of population with adequate sanitation facilities.
- Communities trained in infrastructure maintenance and water resources management, including cost recovery
- Income generating activities undertaken as a result of time saving.
- Enhanced education through improved health conditions, reduced domestic work, and the retention of primary school teachers in remote areas.

Institutional Capacity building and Governance (€ 21 mn)

The EC shall support actions linked to macro-economic management, based on strengthening revenue mobilisation and public expenditure management, in close coordination with the BWIs. Capacity building will be provided to cover the whole budgeting process, to include reinforcement of management and monitoring agencies (Ombudsman, Attorney General, Auditor General).

The EC shall also support actions focusing on sector policy planning, including the definition of policies, strategies and plans, as well as the development of management information systems.

The EC shall provide financial and technical support to the holding of national elections, and the provision of independent electoral observers, as required.

The EC shall continue to support the peace building process in Bougainville in the context of the integrated approach to conflict prevention, drawing upon the Rapid Reaction Mechanism as circumstances require, including the reintegration and rehabilitation of ex-combatants.

For indicative purposes, €15 mn shall be reserved for this type of support.

The EC shall reserve € 6 mn to support actions to strengthen civil society organisations and other non-state actors, in accordance with the provisions of the Cotonou Agreement.

The Indicative programme does not foresee macroeconomic support. However, in the light of current needs, it may be decided to reallocate funds from other headings in the Indicative programme to this type of support. Such a decision may be taken by specific agreement between the Chief Authorising Officer and the National Authorising Officer in the context of an operational, performance, or *ad hoc* review.

6.4. Intervention framework

<i>Education, Training and Human Resources Development Programme €35million</i>	Performance Indicators	Sources of verification	Assumptions
Overall Objective To promote the development of Papua New Guinea's human resources	Measurable increases attributable to Programme activities in the numbers of qualified workforce	Socio-Economic Surveys, <i>Ex-Post</i> Evaluation	Government maintains education's share in national budget allocations
Programme Purpose Number of students (particularly girls and young people in rural areas) obtaining basic education qualifications and marketable skills increased.	Measurable increases attributable to Programme activities in the numbers (particularly girls and young people) graduating from general education, vocational and in-service training	<ul style="list-style-type: none"> * Statistics of the National Department of Education * Training Statistics (NTC) * Statistics of the Department of National Planning and Monitoring * Department of Local Education Surveys of employers 	<ul style="list-style-type: none"> * Most teachers remain in place and report regularly to work. * Inspectors visit schools on a regular basis
Results Number of women and girls having access nationwide to education substantially increased; access to demand-driven vocational training increased; quality of learning upgraded; workforce skills upgraded; quality assurance in place at provincial level; maintenance of schools and equipment, improved communications with remote schools	<ul style="list-style-type: none"> * Enrolment in vocational training courses and elementary and primary schools increased by 30% and 15% respectively * Number of females at all levels increased by 12% ; * Measurable increases in internal examination pass rates linked with programme activities. * Every primary and elementary school in PNG inspected during 2004 and thereafter. 	<ul style="list-style-type: none"> * Project Reports * Statistics of the National Department of Education * Surveys of employers * Training Statistics (NTC) * Statistics of the Department of National Planning and Monitoring and the Department of Local Education * Ad hoc monitoring by NAO and Delegation staff 	<ul style="list-style-type: none"> * Effective co-ordination of all donor-funded projects at every phase of the cycle across HRD sector * Application of lessons learned from 1999 Country Strategy Evaluation * Full and co-operative involvement of relevant national departments, provinces, and Non-State actors * Effective liaison with the other 9th EDF programmes on Water Supply and Institutional Capacity building

<i>Rural Communities Water Supply and Sanitation Programme - €25 million</i>	Performance Indicators	Sources of verification	Assumptions
Overall Objective Increase access of rural communities to safe water supply	Measurable increases in access to safe water attributable to programme activities in priority provinces	Socio-Economic Survey, Mid-Term reviews, Ex-Post, Evaluations	
Programme Purpose Access to safe water and sanitation of rural and communities facilitated, particularly for women and children	Measurable increases in the delivery of safe water (particularly to women and children), attributable to programme activities	<ul style="list-style-type: none"> Statistics of Department of National Planning and Rural Development Statistics of Safe Water delivery (PNG Water Resource Board) 	<p>Willingness of local authorities to select villages according to health needs and poverty status</p>
Results 1. Number of villages and schools receiving safe water supplies increased 2. Sanitation improved (number of pit latrines increased) 3. Infant mortality reduced 4. Incidence of waterborne diseases reduced 5. Income-generating activities (resulting from availability of time) increased 6. Number of communities trained in infrastructure maintenance and water resources management, including cost-recovery increased 7. Communities enabled to plan and construct their facilities 8. Projects successfully implemented with active participation of Non-State Actors and beneficiaries 9. Poverty alleviated	<ul style="list-style-type: none"> Number of households and schools with access to safe water Number of waterborne infections Number of infant mortalities Volume of income-generating activities Number of communities trained in water management 	<ul style="list-style-type: none"> Statistics of the Department of National Planning and Rural Development Statistics of the Ministry of Health Surveys of selected Communities concerned by programme Ad hoc monitoring by NAO and Delegation staff 	<ul style="list-style-type: none"> No major disputes between villages or communities over rights to sources or access to sources Local authorities support project activities directly or permit NSAs to carry out works Communities are fully informed and involved in project activities

<i>Institutional Capacity building and Governance - €21 million</i>	Performance Indicators	Sources of verification	Assumptions
Overall Objectives Enhanced good governance and socio-economic framework.	<ul style="list-style-type: none"> • Qualitative improvement in governance • Macro-economic indicators • No confidence motions in Parliament reduced 	<ul style="list-style-type: none"> • IMF and World Bank Reports • Media reports 	<ul style="list-style-type: none"> • Political Stability maintained • Cooperation with BWI institutions maintained
Programme Purpose Good governance for sustainable development improved	<ul style="list-style-type: none"> • Sustained macro-economic stability • Proper and equitable public resources allocation to social sectors • Shares of social sectors in public expenditure 	Reports of the BWI and other donors	Political integrity of PNG retained: Bougainville remains part of PNG
Results 1. Administrative and management capacities, formulation of policies, strategies and planning enhanced 2. Transparency in public expenditure management increased 3. Control Institutions strengthened 4. Departmental Co-ordination improved 5. Co-operation with stakeholders increased 6. Civil Society organisations and other Non-State Actors strengthened	<ul style="list-style-type: none"> • Reports of BWIs • Reports of Transparency International • Project reports 	<ul style="list-style-type: none"> • Reports of NAO and Delegation • Media reports • Mid-Term reviews • Ex-post evaluations 	Delegation has capacity for sustained monitoring of political process.

6.5. Chronogramme of activities

Programme	Amounts (in € mn)	Identification	Appraisal	Financing decision
Education, Training and Human Resources Development	35	2002 (Second Quarter)	2003 (First Quarter)	2003 (Third Quarter)
Rural Water Supply and Sanitation	25	2002 (Fourth Quarter)	2004 (Third Quarter)	2004 (Second Quarter)
Institutional Capacity building and Governance	21	2002 (Third Quarter)	2003 (Second Quarter)	2003 (Fourth Quarter)

Indicative Commitments forecast (in € million)

PNG	Indicative total	Cumulative Commitments (*)									
		2001	2002	2003/1	2003/2	2003/3	2003/4	2004/1	2004/2	2004/3	2004/4
Education, Training and Human Development Programme	35					35					
Rural Water Supply and Sanitation Programme	25								25		
Institutional Capacity and Governance Programme	21						21				
TOTAL (cumulated)	81					35	56		81		

(*) Assuming funds available from the 9th EDF early in 2002

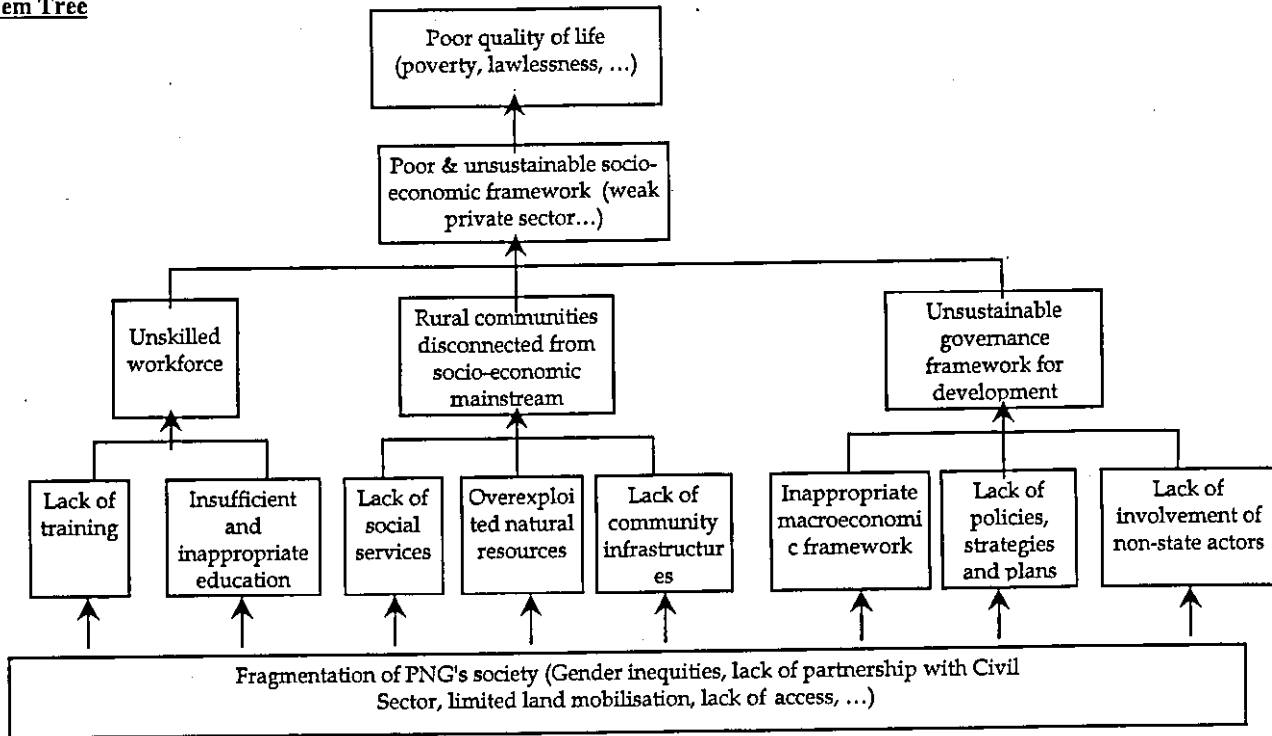
Indicative disbursements forecast (in € million)

PNG	Indicative total	Cumulative payments									
		2003/3	2003/4	2004/1	2004/2	2004/3	2004/4	2005/1	2005/2	2005/3	2005/4
Education, Training and Human Development Programme	35		0.5	1.0	1.0	3.0	3.0	4.5	2.0	2.0	2.0
Rural Water Supply and Sanitation Programme	25					0.5	0.5	1.25	1.25	1.25	1.25
Institutional Capacity and Governance Programme	21			0.2	0.4	0.75	0.75	0.5	0.5	0.75	0.75
TOTAL	81		0.5	1.2	1.4	4.25	4.25	6.25	3.75	4.0	4.0

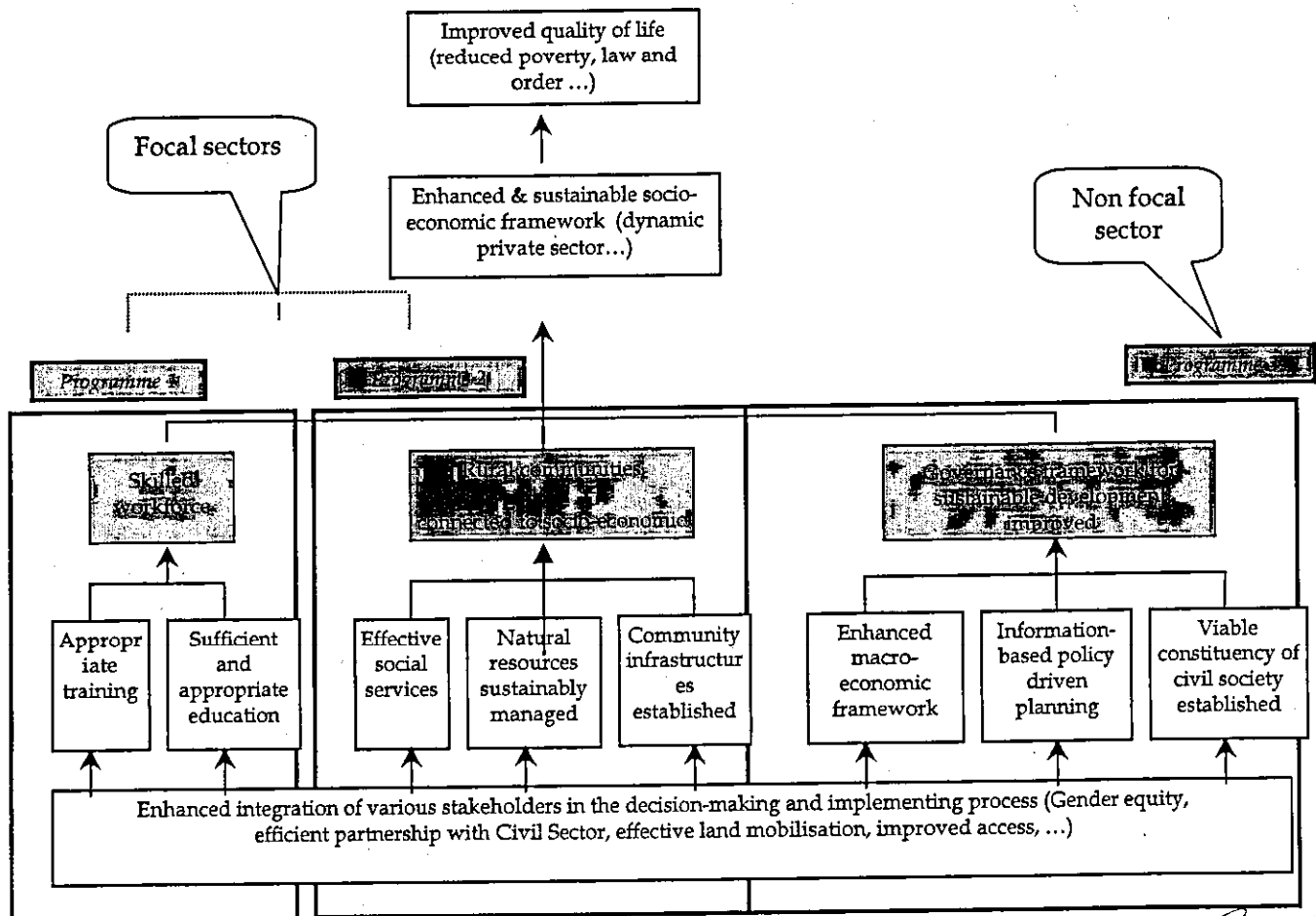
Annex 1

Problem Tree, Objective Tree and Response Strategy

Problem Tree



Objective Tree and Response Strategy



Annex 2

Major EC-financed Ongoing/New Projects and Programmes			
Instrument	Project	Amount	Main Activities
7th EDF			
NIP	Environmental Monitoring and Management of Mines	€ 1.6m	Training and equipment to help Office of Environment and Conservation to monitor large-scale mining operations
NIP/SYSMIN	Ramu Highway Upgrading	€ 21.5m	Rehabilitation of several bridges and road sections across PNG
SAF	High School Maintenance Programme	€ 5.3m	Budget support to Ministry for non-wage maintenance costs for secondary and tertiary schools
NIP	Gazelle Restoration Authority Micro-projects Programme	€ 1.7m	Various infrastructure projects (water & electricity supply, schools, markets, etc.) in Gazelle peninsular
8th EDF			
NIP	2 ND Human Resources Development Programme (HRDP II)	€ 24.0m	<ul style="list-style-type: none"> ♦Construction: technical, vocational and secondary schools/colleges (€ 14.6 million) ♦Scholarships and training ♦Equipment
NIP	Eco-forestry programme	€ 7.5m	Successor programme to the IRECDP- Relates to sustainable use of natural resources
STABEX	Integrated Programme of Agricultural Rehabilitation for Bougainville	€ 5.0m	Assistance for a post-crisis area, integrating a number of sectors, including agriculture and roads
NIP	Rural Coastal Fisheries Development Programme	€ 6.0m	<ul style="list-style-type: none"> ♦Research and promotion of small-scale sustainable fisheries coastal areas. ♦Relates to sustainable use of natural resource, as with Eco-forestry
NIP	Sexual Health Project	€ 3.5m	Prevention and control of further transmission of HIV and STIs
NIP	EU Programme Management Unit in Support of the NAO	€ 2.0m	Successor programme to same programme funded under 7 th EDF. Relates to the support at the NAO's office for the overall management and supervision of EDF funded projects and programmes in PNG
SAF	Structural Adjustment Support Programme (2000/2001)	€ 10.4m	Budget support to social sectors (Education & Health), Forestry & Environment, and domestic debt
SYSMIN	8 th EDF SYSMIN Special Financing Facility	€ 50.0m	<ul style="list-style-type: none"> ♦Mining waste management policy ♦Buildings & equipment ♦Geological surveys and Information systems ♦Promotion of PNG's mineral sector

Annex 3

Matrix of Interventions (EC and other donors)

Table 1. Country Donor Matrix. Net disbursements in 1999, in € million¹

	Economic Develop.	Social Develop.	Product. Sector Activities	Thematic/ Crosscut. Issues	Total	In % of the total	In % of donors
GoPNG	14	43	57	14	128	30.2%	-
EC		16.1	6	0.3	22.4	5.3%	7.6%
EC MS		1	0.4	0.3	1.7	0.4%	0.6%
UN		6.9			6.9	1.6%	2.3%
WB	0.4	3.9	6.7	0.75	11.75	2.8%	4.0%
AsDB	2	19	18		39	9.2%	13.2%
Australia	1.1	85.2	55.7	29	171	40.3%	57.7%
Japan		0.8	37.7	0.3	38.8	9.1%	13.1%
New Zeal.		2.76	0.34	1.66	4.76	1.1%	1.6%
Total	17.5	178.66	181.84	46.31	424.31	100.0%	100.0%
In %	4.1%	42.1%	42.9%	10.9%	100.0%		

Sources: documents provided by the different co-operation agencies. Data related to the Sino-PNG co-operation were not appropriate to fit in this matrix.

- ¹ The figures shown in this table are indicative. Due to the disparity of the information available, some assumptions have been taken, in particular the breakdown of funding between the different columns, and the exchange rates used against the euro.

Figures related to the Government of PNG refer to the development budget 2001 (Economic & Development Policies, p. 18.) As the development budget comprises K390.8 million from the Government own resources, out of a total of K1,051.1 million, the corresponding ratio has been used in order to calculate the Government's contribution in the specific areas. An exchange rate of 0.33 EUR against the Kina has been applied, for the necessary conversions.

Table 2. Summary of EU Assistance to PNG, from LOME I to date (in € million)

	Grants						Loans					
	NIP	Budget Lines	Stabex	Sysmin ¹	Regional progr.	Interest Subs. ²	Total grants	Own res. ³	Risk Capital ³	Special loans ²	Total loans	Grand total
EDF 4	10.0	0.0	0.0	0.0	0.0	1.1	11.1	7.0	1.9	3.5	12.4	23.5
EDF 5	23.0	0.0	50.6	0.0	30.9	0.4	104.9	47.9	13.8	13.1	74.8	179.7
EDF 6	34.5	0.8	110.0	30.0	39.8	4.6	219.7	33.0	3.5	48.5	85.0	304.7
EDF 7	46.2	6.0	84.6	0.0	30.9	10.2	177.9	41.0	21.3	0.0	62.3	240.2
EDF 8	50.0	0.0	0.0	50.0		0.0	100.0	0.0	0.0	0.0	0.0	100.0
Total to date	163.7	6.8	245.2	80.0	101.6	16.3	613.6	128.9	40.5	65.1	234.5	848.1
% of sub total	27%	1%	40%	13%	17%	3%	100%	55%	17%	28%	100%	
% of grand total							72%				28%	100%

Sources: Annual reports 1995 and 1999

- ¹ The €50 million allocation under EDF8 has yet to be approved
² Administered by E.I.B., but funded by the European Development Fund
³ Administered by E.I.B.

Annex 4

Human Resources Development Policy

Human resource development has been a top priority for PNG and, in quantitative terms, the achievements of recent years have been remarkable. There were over 770,000 students in the national education system during 2000 compared with 464,000 in 1990. There have been impressive increases in, for example, the numbers of vocational and higher education students and the numbers of employees receiving in-service training. Enrolment in vocational centres increased by 137.3 percent from 1975 to 1998, while the number of students in grade 11 and 12 increased annually by 16% and 14% over the last 10 years. Enrolments in primary schools have continued to rise (at Grade 1 by 4% annually).

Female participation in primary education has increased from 37.4% in 1975 to 45.0% in 1998 and in provincial high schools from 31.5% in 1975 to 42.8% in 1998. Of the population of 5,659 grade 11 and 12 students enrolled in 1998, 34.9% were female. For all grades, female participation is 44.2%. Considering Papua New Guinea's conservatism with regard to female education, these achievements are clearly significant.

Against this background, the Government has called for the education system to give value and status to those social attitudes, knowledge sets and skills that are relevant to social development. Thus, far-reaching training and higher educational policies have been developed and a major restructuring of the general education system is currently under way. Four national objectives indicate the overall philosophy underpinning the new policies:

- To develop an education system to meet the needs of Papua New Guinea and its people, providing appropriately for the return of children to the village community, for formal employment, or for continuation to further education and training;
- To provide basic schooling for all children as this becomes financially feasible;
- To help people understand the changes that are occurring in contemporary society through the provision of non-formal education and literacy programmes; and
- To identify the manpower development needs in the public and private sectors, and to provide appropriate higher education, development and training programmes.

Each of these objectives represents a serious challenge and, while all are being seriously addressed, the capacity of government fully to resource their implementation is limited in the current financial situation. Donor-aided programmes and projects continue to contribute greatly and it is vital that they focus upon the priority areas and that there is no unnecessary overlap or major gaps between them.

Some of the challenges facing PNG's human resource sector are common to those facing many developing nations. Others are, at least in part, PNG-specific. For instance, very many schools are in isolated communities, inspectors seldom visit them, and the teachers there face many problems. The multiplicity of languages constitutes another particular challenge.

Even the most conventional projects and programmes – such as the construction and maintenance of education buildings – must be thought through with particular care if they are to be effective in the Papua New Guinean context. And quite a number of the activities that will be needed across the sector – such as support for vocational training

and District-level capacity building - will themselves have to be PNG-specific if they are to succeed and be sustainable.

Those involved in planning and guiding PNG's human resource sector are already looking ahead to a time when the nation is no longer donor-dependent and, over the EDF9 period, the intention should be less one of providing medium-term palliatives and more a wholehearted commitment to *solving* some key problems on a *sustainable* basis. For example, how school inspection should be conducted across this country, with all its geographical and other special challenges, while taking account of communication methods made possible by contemporary technology, calls for a creative approach to programming design.

The current Educational Reform Programme involves the following:

- Provision of nine years of (near) universal basic education by 2004;
- Introduction of community-based elementary schools providing a preliminary year and Grades 1 and 2 all taught in the language of choice of the community (usually a vernacular language);
- Consolidation of community and primary schools to deliver primary Grades 3 to 8 inclusive, with improved internal efficiency and with English as the medium of instruction - the elementary and primary stages together give 9 years of basic education; and
- Expansion of access to secondary Grades 9 and 10 and, in turn, to Grades 11 and 12. Facilities vacated by the relocation of Grades 7 and 8 from secondary to primary schools will be used.

The Reforms are ambitious but impressive progress has been made. While some quantitative data are available to measure progress (e.g. number of elementary schools, staffing and enrolments), as yet there are no qualitative indicators relating to the educational effectiveness and likely long-term impact - particularly with regard to the vernacular teaching being adopted for the early school years. While progress towards the reform targets has been impressive, the objective of universal education by the target date of 2004 now appears to be somewhat optimistic.

Annex 5

Water Resources Sector Policy

Although Papua New Guinea has significant water resources (enormous rivers and abundant rainfall), 85% of the population, particularly rural dwellers, do not have access to safe drinking water. Women in particular have to go long distances to fetch water, which is not altogether pure, resulting in the prevalence of several waterborne diseases.

Providing safe drinking water is a key objective of the GoPNG's rural development policy. As part of this policy, a Water Resources Board has been set up. The latter so far provides services to only eleven districts. It is particularly interested in groundwater resources where potential exist for development in district water supply. The Board has commissioned a study which is being funded by Japan International Cooperation Agency (JICA).

The EU has funded two rural water supply programmes under the 6th and the 7th EDFs, for a total amount of €7.7mn. The programmes covered eight provinces - Central and Eastern Highlands, East New Britain, East Sepik, Madang, Milne Bay, Western Highlands and West New Britain.

The programmes were judged to be largely successful, although an evaluation highlighted certain weaknesses, the most important being the inadequate participation of stakeholders. Recommendations were made, among others, in:

- Considering setting up a programme following the philosophy of decentralised co-operation and micro-project approach, and allowing the active involvement of NGOs;
- Widening the approach to include further aspects of water supply – health education, sanitation, awareness campaigns, and of improvement of living conditions;
- Considering other technical possibilities, as deep boreholes;
- Using a participatory approach, for projects identification, implementation and management;
- Establishing partnership agreements at the provincial, district and local level, and setting up Steering Committees at the most decentralised possible level;
- Carrying out appropriate activities in training and management, in order to enhance infrastructure maintenance capacities.

Sustainability of such programmes will also be achieved by involving as much as possible the beneficiaries as well as the decentralised players concerned. Involvement at village level (including labour, materials, land, accommodation) and at provincial level (compliance to high technical standards, adequate staffing and institutional framework), and adequate support to these entities in order for them to properly fulfil their obligations, are key elements in this regard.

Procedures have to be adapted for this type of programme. Past experience has shown the constraints and handicaps of long and heavy administrative and financial procedures. A precondition to the success of such a programme is the decentralisation and delegation of decision-making processes to the local entities and communities, combined with the necessary flexibility in the approaches and instruments, while ensuring financial and technical accountability.

Annex 6

The Country Support Strategy: a full Participatory Approach

One of the main innovations of the new Cotonou Agreement is the involvement of all the stakeholders, and in particular the representatives of the civic society, in the decision-making and implementing process.

This principle has been applied for the programming of the 9th EDF. A Task Force and a Working Group have been set up, regular preparatory meetings have been organised, and a major workshop have all ensured that the present document reflects the views and incorporates the ideas of the stakeholders dealing with the development co-operation in PNG.

The following activities have been carried out: Definition of the methodology, in compliance with the new framework of co-operation presented in the Cotonou Agreement; Drawing the problem tree, the objective tree and defining the response strategy (as per annex 2 of this document); Preparing of this Country Support Strategy; Two-days Workshop, with the participation of more than 70 people (see list attached to this annex), representing the State agencies, the civic society, the private sector and the other donors.

The purpose of this workshop was two-fold: To receive, understand, respond to and improve upon the draft Country Support Strategy; To contribute to the preparation of the Indicative Work Programme

During the workshop, six working groups developed their own area of focus, as proposed by the Task Force Committee: Social Development and Gender Equity; Education and Training;

- Information-based Policy-driven Planning; Governance; Economic Development Framework; and Job Creation

Each of these six working groups made its comments, proposed recommendations, and developed its own area of focus, utilising the LogFrame Approach (Problem Tree, Objective Tree, Response-Strategy), resulting to the definition of appropriate actions.

These actions have been merged into three programmatic areas, as set out in section 5 of this document. Again, each of these three programmes has been analysed, structured and developed, using the Logical Framework. These, in turn, will be the basis for further interventions, in particular for the preparation of the feasibility studies. Finally, the overall exercise of preparing the present Country Support Strategy and the Indicative Work Programme was concluded, with the full participation of all the stakeholders at every stage of this process.

More importantly, it was agreed that the said Task Force Committee, which was initially set up in order to follow up the activities related to the EDF9 Programming, would also be involved in launching, monitoring and reviewing the 9th EDF programme.

This, by its own, is already an important result, in that all the stakeholders are satisfied with the outcome of the programming of the 9th EDF. But this could not have been achieved without good co-ordination and participation of all stakeholders. It is crucial that such spirit of good co-operation is encouraged during the course of implementation of the proposed projects and programmes, and to maximise their impact for the benefit of all Papua New Guineans.

Annex 7

PNG's Socio-Economic and Financial Indicators

Table 1. Land and Population

Province	Area (sq. kms)	Population ('000)		Density	Annual Growth R.
		1990	1999		
Southern Region	200.340	771	1.001	5	2,9%
Western	99.300	110	151	2	3,5%
Gulf	34.500	69	73	2	0,7%
Central	29.500	141	168	6	1,9%
National Capital	240	196	298	1.242	4,8%
Mine Bay	14.000	159	193	14	2,2%
Northern (Oro)	22.800	96	118	5	2,2%
Highlands Region	62.400	1.374	1.668	27	2,2%
Southern Highlands	23.800	317	413	17	3,0%
Enga	12.800	236	324	25	3,6%
Western Highlands	8.500	336	418	49	2,4%
Simbu	6.100	184	189	31	0,3%
Eastern Highlands	11.200	301	324	29	0,8%
Northern Region	142.600	1.028	1.212	8	1,8%
Morobe	34.500	380	457	13	2,1%
Madang	29.000	253	299	10	1,9%
East Sepik	42.800	254	288	7	1,4%
West Sepik	36.300	140	168	5	2,1%
Islands Region	57.500	589	769	13	3,0%
Manus	2.100	33	41	19	2,4%
New Ireland	9.600	87	112	12	2,8%
East New Britain	15.500	185	251	16	3,4%
West New Britain	21.000	130	184	9	3,9%
Northern Solomons	9.300	154	181	19	1,8%
Total	462.840	3.762	4.650	10	2,4%

Source: Department of Trade and Industry, *Statistical Digest 1998-99*, p. 17.

Table 2. PNG Gross Domestic Product (GDP) by Industry

(1983 prices)	K millions			Percent shares			Annual Growth	
	1990	1995	2000	1990	1995	2000	90-95	95-00
Agriculture, forestry & fisheries	681	913	1,091	29.0	26.8	29.7	6.0%	3.6%
Mining & quarrying	346	968	768	14.7	28.4	20.9	22.8%	-4.5%
Manufacturing	211	268	346	9.0	7.9	9.4	4.9%	5.3%
Electricity & other serv.	40	43	54	1.7	1.3	1.5	1.5%	4.5%
Construction	119	106	134	5.1	3.1	3.6	-2.3%	4.8%
Wholesale & retail trade	227	281	393	9.7	8.3	10.7	4.4%	6.9%
Transport, storage & commun.	146	172	216	6.2	5.1	5.9	3.3%	4.7%
Finance, real estate prop.	144	159	150	6.1	4.7	4.1	2.0%	-1.2%
Community & social services	421	463	496	17.9	13.6	13.5	1.9%	1.4%
Other	17	31	29	0.7	0.9	0.8	12.8%	-1.3%
Total Gross Domestic Product	2,352	3,404	3,676	100.0	100.0	100.0	7.7%	1.6%

Source: The Australian Agency for International Development, *The Economy of Papua New Guinea: 1999 Report*, p. 115

Department of National Planning and Monitoring, *Economic & Development Policies: Budget 2001*, p. 80

Table 3. Health Indicators in various Countries in East Asia and the Pacific

	Papua New Guinea	Indonesia	Thailand	China	Vietnam
Health centers per 100,000 people	14	3	14	7	17
People per hospital bed	260	1,743	665	465	389
Infant mortality per 1000 live births	62	49	34	33	38
Under-5 mortality per 1000 live births	85	60	38	39	-
Maternal mortality per 100,000 live births	930	390	200	115	-
Low-birthweight babies (percentage of births)	23	14	13	6	17
DTP vaccinated (percentage of children < 1 year)	55	89	65	89	95
Measles vaccinated (percentage of children < 1 year)	50	92	73	92	94
Memo: GNP per capita (\$US 1998)	890	680	2,200	750	330

Note: Data are for 1998 or the most recent available year.

Source: World Bank, World Development Indicators 1998, UNICEF, State of the World's Children 1999.

Table 4. Selected economic and social Indicators

	GNP per person	Human Develop. Index ranking	Life expectancy	Child Mortality Rate ¹
	1997 \$US	1999	1997 years	1997 no.
Papua New Guinea	930	129	58	112
Vanuatu	1,340	116	65	50
Solomon Islands	870	118	70	28
Fiji	2,460	61	73	24
Indonesia	1,110	105	65	68
Philippines	1,200	77	68	41

¹ Deaths of children under 5 years of age per 1,000 births

Sources: The Australian Agency for International Development, *The Economy of Papua New Guinea: 1999 Report*, p. 8

Table 5. PNG's urban-rural Disparities, 1996

Indicator	Unit	Urban	Rural
Infant mortality rate (per 1000 live births)	no.	33.7	86.6
Households connected to electricity	%	59.2	3.2
Population with no formal education	%	24.4	50.5
Households possessing a motor vehicle	%	19.9	1.4

Source: Bank of Papua New Guinea, *Money and Banking in PNG*, Port Moresby, 1998, p. 14.

Table 6. Selected social Indicators by PNG Province

	Life exp.	Infant Mortality < 1year	Literacy
	1991 years	1990 no.	1990 %
Gulf	46.9	111	61
West Sepik	42.9	97	30
East New Britain	56.5	58	73
Manus	55.6	40	63
Western Highlands	56.9	76	23
NCD (Port Moresby)	58.3	41	81

Source: Bank of Papua New Guinea, *Money and Banking in PNG*, Port Moresby, 1998, table 1.5.

Table 7. Social Indicators for various Groups, 1996

Indicator/group	Poorest quartile	Second quartile	Third quartile	Richest quartile	National average
Literacy					
Women over 14	31	38	43	57	43
Men over 14	48	54	61	77	61
Never attended school					
Women over 14	60	54	47	37	49
Men over 14	40	38	29	20	31
Stunting among children ¹	62	50	47	30	47
Piped water in households	4	6	11	27	12
Flush toilet in households	0	3	15	32	7
Electricity in households	2	3	13	31	12

Source: World Bank. Papua New Guinea. Improving Governance and Performance. October 22, 1999. Table 3.8.

Table 8. Consumption by Income Group and Region, 1996

Consumption quartile	Consumption per adult equivalent (C/AE) per year			C/AE per day	
	Nominal Kina	Real ¹ Kina	Share spent on food	Calories	Protein
			%		Grams
I (poorest)	248	258	67	1.955	27
II	457	464	67	2.587	41
III	814	781	65	3.158	60
IV (richest)	2.135	2.127	65	4.200	94
Region					
National Capital District	2.401	1.226	50	2.697	82
Papuan/South Coast	1.118	902	68	3.326	70
Highlands	838	860	60	2.868	48
Momase/North Coast	706	1.007	67	3.101	53
New Guinea Islands	680	642	66	2.685	54
National average	912	907	63	2.974	55

Source: World Bank. Papua New Guinea. Improving Governance and Performance. October 22, 1999. Table 3.2.

Table 9. Export by Commodity

Unit	Quantities			Shares (of total value)		
	1990	1995	2000	1990	1995	2000
Minerals & Oil				65	71	79
Gold tons	34	55	62	34	25	31
Copper 000 tons	197	216	147	31	22	14
Oil million bar.	0	37	23.4	0	24	34
Agricultural				24	26	20
Coffee 000 tons	63	55	50	9	6	4
Cocoa 000 tons	34	31	45	3	1	2
Copra 000 tons	55	64	68	1	1	1
Copra Oil 000 tons	35	33	42	1	1	1
Palm Oil 000 tons	143	187	300	3	4	6
Rubber 000 tons	2	3	3	0	0	0
Tea 000 tons	5	4	7	1	0	0
Logs 000 m3	990	2513	1500	6	13	6
Marine products 000 tons	1	6	not av.			
Other				11	3	1

Source: The Australian Agency for International Development, *The Economy of Papua New Guinea: 1999 Report*, p. 129
Department of National Planning and Monitoring, *Economic & Development Policies: Budget 2001*, p. 82

Table 10. Budget 1998-2001 - Revenue

	1998	1999	2000	2001
Revenue (Million Kina)	Actual	Actual	Est.	Proj.
Personal income Tax	448.8	524.4	565.0	650.0
Company tax	185.5	246.4	290.0	320.0
Dividend Withholding Tax	42.5	47.0	55.0	55.0
MRSF Taxes	240.6	258.7	393.9	316.7
Other Direct	67.8	86.6	117.2	113.4
Gaming Tax	22.7	34.9	55.3	65.0
Excises	152.2	171.3	168.8	185.0
VAT	-	146.0	237.5	310.0
Mining Levy	-	7.1	95.0	100.0
Other Indirect	0.3	0.7	0.9	0.8
Import Duty	397.8	318.7	208.7	225.0
Export Duty	40.1	78.9	123.7	135.0
Total Tax Revenue	1,598.3	1,920.7	2,311.0	2,475.9
Non-Tax Revenue	279.5	171.2	175.1	197.0
Total Revenue	1,877.8	2,091.9	2,486.1	2,672.9
% GDP	21.10%	23.00%	25.20%	24.50%
Grants	470.3	477.1	554.7	550.5
Grants as % of Tot.Rev.	25.05%	22.81%	22.31%	20.60%
Total Revenue & Grants	2,348.1	2,569.0	3,040.8	3,223.4
% GDP	26.40%	28.20%	30.90%	29.50%

Source: The Pacific Economic Bulletin, Vol. 15, Number 2
Department of National Planning and Monitoring, Economic & Development Policies: Budget 2001, p. 85

Table 11. Budget 1998-2001 - Expenditure

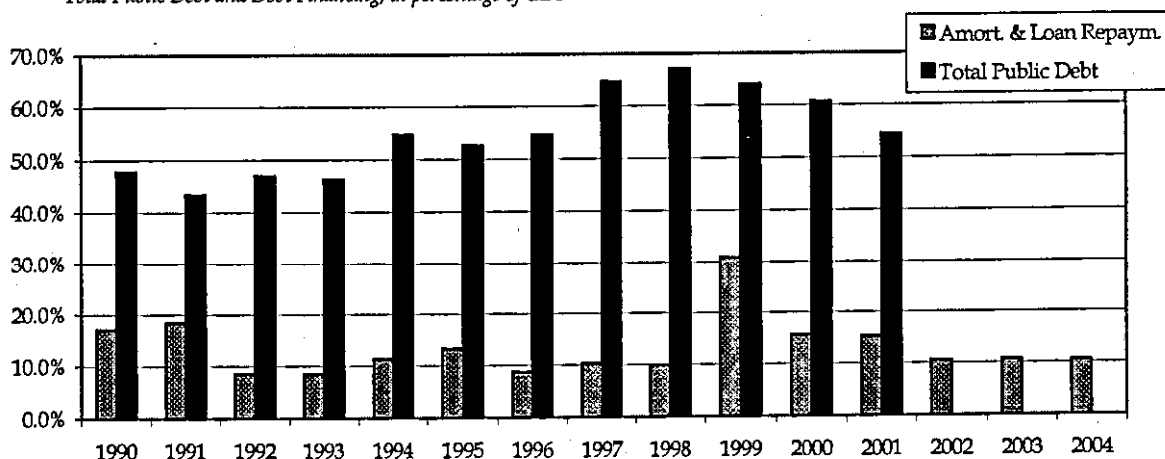
	1998	1999	2000	2001
Expenditure (Million Kina)	Actual	Actual	Est.	Proj.
National Departments	861.5	969.5	1,143.6	1,184.5
Salaries and Wages	383.0	424.4	465.5	498.4
Good and services	478.5	545.1	468.1	558.8
Arrears	-	0.0	210.0	127.3
Provincial Departments	559.6	536.7	540.2	584.7
Salaries and Wages	306.5	383.8	381.7	417.5
Good and services	122.3	84.6	89.5	94.0
Conditional grants	130.8	68.3	69.0	73.2
Transfer to Statutory Bodies	135.3	121.2	122.1	142.0
Interest Payments & fees	337.2	392.7	466.9	410.1
Domestic loans	229.8	260.5	297.6	243.1
External loans	107.4	132.2	169.3	167.0
Net Lending to Statutory Bodies	4.9	5.0	8.3	8.2
Total Recurrent	1,888.7	2,015.1	2,264.5	2,313.1
Public Investment Programme	586.5	786.1	955.6	1,051.1
Total Expenditure & Net Lending	2,475.2	2,801.2	3,220.1	3,364.2
Amortisation	239.5	1,247.0	588.2	596.3
Domestic loans	37.3	1,013.9	100.6	267.9
External loans	202.2	233.1	487.6	328.4
Loan Repayments Re CSAs	4.9	5.0	8.3	8.2
Total Payments	2,719.6	4,053.2	3,816.6	3,968.7
% GDP	30.6%	44.5%	38.7%	36.3%

Source: The Pacific Economic Bulletin, Vol. 15, Number 2
Department of National Planning and Monitoring, Economic & Development Policies: Budget 2001, p. 86

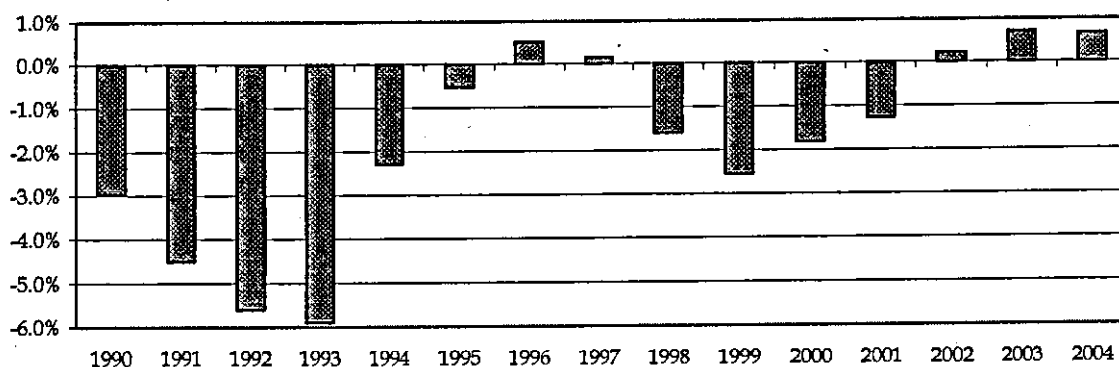
Table 12. Central Government Financing (Kina Millions, current Prices)

Year	Central Government Financing					Financing of fiscal operations					Public debt			
	GDP	Rev. & Grants	Exp. & lend.	net Bal.	% of GDP	Dom.	Ext.	Loan rep.	Debt rep.	Total paym.		Dom.	Ext.	Total debt
1990	3,076	998	1,089	-91	-3.0%	57	145	23	225	1,314	17.1%	406	1,064	1,470
1991	3,606	1,026	1,188	-162	-4.5%	54	206	9	269	1,457	18.5%	556	1,011	1,567
1992	4,141	1,126	1,358	-232	-5.6%	40	73	13	126	1,484	8.5%	823	1,121	1,944
1993	5,016	1,309	1,605	-296	-5.9%	37	103	7	147	1,752	8.4%	1,038	1,282	2,320
1994	5,411	1,446	1,570	-124	-2.3%	36	161	4	201	1,771	11.3%	1,425	1,537	2,962
1995	6,309	1,723	1,756	-33	-0.5%	43	223	3	269	2,025	13.3%	1,606	1,718	3,324
1996	6,914	1,897	1,861	36	0.5%	46	126	6	178	2,039	8.7%	1,970	1,811	3,781
1997	6,824	2,202	2,192	10	0.1%	41	207	3	251	2,443	10.3%	2,252	2,166	4,418
1998	7,714	2,340	2,464	-124	-1.6%	43	220	5	268	2,732	9.8%	2,473	2,705	5,178
1999	9,103	2,569	2,801	-232	-2.5%	1,014	233	5	1,252	4,053	30.9%	2,021	3,813	5,834
2000 ¹	9,855	3,041	3,220	-179	-1.8%	101	488	8	597	3,817	15.6%	2,082	3,906	5,988
2001 ²	10,930	3,223	3,364	-141	-1.3%	268	328	8	604	3,968	15.2%	1,814	4,137	5,951
2002 ²	11,730	3,440	3,416	24	0.2%	88	302	8	398	3,814	10.4%			
2003 ²	12,973	3,681	3,590	91	0.7%	100	321	8	429	4,019	10.7%			
2004 ²	13,946	3,836	3,745	91	0.7%	121	308	8	437	4,182	10.4%			

Total Public Debt and Debt Financing, in percentage of GDP



Balance of Central Government Financing, in percentage of GDP



Source: The Australian Agency for International Development, *The Economy of Papua New Guinea: 1999 Report*, p. 113-126

Department of National Planning and Monitoring, *Economic & Development Policies: Budget 2001*, p. 80-88

¹ Estimated data

² Projected data

Table 13. Major economic and financial indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Nominal GDP (\$US million)	3,219	3,787	4,377	4,975	5,355	4,614	5,222	4,927	3,821	3,619	3,754
Nominal GDP Per Capita (\$US)	870	1,005	1,137	1,269	1,339	1,134	1,187	1,095	831	776	782
Nominal GDP (Millions of Kina)	3,076	3,605	4,222	4,867	5,382	5,888	6,881	7,064	7,863	9,263	11,088
Nominal GDP Growth (%)	1.0%	17.2%	17.1%	15.3%	10.6%	9.4%	16.9%	2.7%	11.3%	17.8%	19.7%
Nominal GDP Per Capita (K)	831	956	1,097	1,242	1,345	1,447	1,564	1,570	1,709	1,971	2,308
Real GDP (1983 Prices, K mill)	2,351	2,575	2,932	3,465	3,671	3,549	3,824	3,675	3,536	3,671	3,843
Real GDP Growth (%)	-3.0%	9.6%	13.8%	18.2%	5.9%	-3.3%	7.7%	-3.9%	-3.8%	3.8%	4.7%
Real GDP Per Capita (K)	635	683	761	884	918	872	869	817	769	781	800
Real GDP Per Capita Growth	-2.5%	7.5%	11.5%	16.1%	3.8%	-5.0%	-0.3%	-6.0%	-5.9%	1.6%	2.4%
Population & Employment											
Population (millions)	3.70	3.77	3.85	3.92	4.00	4.07	4.40	4.50	4.60	4.70	4.80
Population Growth (% per year)	1.9%	1.9%	2.1%	1.8%	2.0%	1.8%	8.1%	2.3%	2.2%	2.2%	2.1%
Employment Index (June 1989=100)	94.6	91.1	91.3	91.4	98.1	93.5	100.5	100.3	96.8	101.5	106.6
Employment Growth	-4.7%	-3.7%	0.2%	0.1%	7.3%	-4.7%	7.5%	-0.2%	-3.5%	4.9%	5.0%
GDP by Expenditure (Mill K)	3,076	3,605	4,222	4,867	5,382	5,888	6,881	7,064	7,863	9,263	11,088
Private Consumption	1,816	2,121	2,143	2,046	2,240	2,454	3,375	4,119	4,694	-	-
Government Consumption	764	853	1,005	1,199	1,001	1,006	1,370	1,361	1,407	-	-
Gross Fixed Capital Formation	773	1,010	914	901	1,012	1,150	1,186	1,079	1,089	-	-
Change in Stocks	-21	-22	70	-43	142	149	375	409	307	-	-
Exports of Goods & Services	1,250	1,524	2,021	2,562	3,031	3,675	3,575	3,312	3,942	4,985	5,125
Imports of Goods & Services	1,506	1,881	1,930	1,798	2,044	2,545	3,000	3,217	3,575	3,059	3,284
GDP by Expenditure (%)											
Private Consumption	59	59	51	42	42	42	49	58	60	-	-
Government Consumption	25	24	24	25	19	17	20	19	18	-	-
Gross Fixed Capital Formation	25	28	22	19	19	20	17	15	14	-	-
Change in Stocks	-1	-1	2	-1	3	3	5	6	4	-	-
Exports of Goods & Services	41	42	48	53	56	62	52	47	50	-	-
Imports of Goods & Services	49	52	46	37	38	43	44	46	45	-	-
Fiscal Indicators (Mill K)											
Government Revenues & Grants	998	1,026	1,126	1,311	1,446	1,722	1,898	2,024	1,991	2,569	2,867
Government Spending	1,089	1,188	1,358	1,594	1,570	1,755	1,861	2,009	2,129	2,801	3,082
Government Budget Balance	-91	-162	-232	-284	-125	-34	37	15	-137	-232	-215
Money, Inflation & Exchange Rates											
M1 (Narrow Money, Mill K)	353	458	509	528	571	646	865	920	1,021	1,234	1,115
M3 (Broad Money, Mill K)	1,334	1,506	1,648	1,811	1,860	2,066	2,736	3,101	3,212	3,500	3,547
6-Month Treasury Bill Rate	10.5%	10.5%	6.5%	6.0%	10.8%	21.5%	9.2%	14.5%	23.9%	20.4%	16.1%
Commercial Bank Avg. Loan Rate	-	-	13.6%	9.2%	10.0%	15.4%	10.2%	10.6%	20.2%	18.2%	17.7%
Consumer Price Inflation	7.0%	7.0%	4.0%	5.0%	6.5%	3.0%	17.0%	12.0%	4.0%	14.0%	15.0%
Exchange Rate: \$US/Kina	1.05	1.05	1.04	1.02	1.00	0.78	0.76	0.70	0.49	0.39	0.34
Balance of Payments (Mill K)											
Current Account Balance	-88	-144	94	632	576	859	411	-167	124	367	292
Trade Balance	86	75	607	1,437	1,346	1,800	1,338	950	1,476	2,246	2,668
Services Balance	-287	-466	-699	-847	-781	-1,034	-1,022	-1,204	-1,539	-1,929	-2,308
Transfers	113	247	186	42	11	93	95	87	187	50	-68
Capital Account Balance	207	60	-146	-701	-627	-556	58	30	-364	-170	308
Errors & Omissions	-111	3	-16	-27	3	-59	-37	14	-23	-29	64
Overall Balance	8	-81	-68	-96	-48	244	432	-123	-263	168	664
International Reserves (\$US Mill)	403	323	239	142	96	261	584	363	193	205	176
Import Cover (Months)	3.1	2.0	1.4	0.9	0.6	1.6	3.1	1.9	1.3	2.0	1.9
Total Public Debt Outstand. (Mill K)	1,470	1,567	1,945	2,320	2,961	3,324	3,781	4,418	5,178	5,834	5,142
Domestic Debt (Mill K)	406	556	824	1,037	1,424	1,606	1,970	2,252	2,473	2,021	1,775
Foreign Debt (Mill K)	1,064	1,011	1,121	1,283	1,537	1,719	1,811	2,166	2,705	3,813	3,367
Total Debt as a Share of GDP	47.8%	43.5%	46.1%	47.7%	55.0%	56.5%	54.9%	62.5%	65.8%	63.0%	46.4%

Source: Bank of Hawaii, Papua New Guinea. Economic Report, February 2001, p. 9

Glossary

ACP	Africa, Caribbean and Pacific
AFD	Agence Française de Développement
APEC	Asia-Pacific Economic Co-operation
AsBD	Asian Development Bank
AusAID	Australian Agency for International Development
BWI	Bretton Woods Institutions
CDE	Centre for the Development of Enterprises
EC	European Community
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EU	European Union
FIC	Forum Island Countries
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GoPNG	Government of Papua New Guinea
GSP	Generalised System of Preferences
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
MFN	Most Favoured Nation
MSG	Melanesian Spearhead Group
MTDS	Medium-Term Development Strategy
NAO	National Authorising Officer
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NTC	National Training Council
NZODA	New Zealand Official Development Assistance
PACP	Pacific ACP
PICTA	Pacific Island Countries Trade Agreement
PNG	Papua New Guinea
PNGBC	Papua New Guinea Banking Corporation
RDP	Rural Development Programme
REPA	Regional Economic Partnership Agreement
SPARTECA	South Pacific Regional Trade and Economic Agreement
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation

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